

COUNTY PRESENTATION – PROVIDER AUDITS

- County Finance Officers Meeting
- Stevens Point, Wisconsin
- December 7, 2007



Presenters

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Requiring Audits

♦ Overview

- Why are audits required
- What is covered in these audits
 - Audits, generally
 - Provider audits, specifically - Reserves



Why Require Audits

- It's the law:
 - Federal Single Audit Act Amendments of 1996 require an audit if agency is nonprofit or state or local gov't and agency expended \$500K or more in federal awards (i.e. grants)
 - Wis Stat 46.036 requires an audit for agencies that receive \$25,000 or more in funding from DHFS or counties – *these audits are our focus today*



Why Require Audits

- It's a condition of license
 - Audit is a condition of license for Group Homes and Residential Care Centers that provide residential care for kids
- It's a condition of contract
 - Contract might require audit even if federal or state law and regulations do not
- It's good business practice



Wis Stat 46.036

“Unless waived by the department, biennially, or annually if required under federal law, provide the purchaser with a certified financial and compliance audit report if care and services purchased exceed \$25,000. The audit shall follow standards that the department prescribes”.



“Unless waived by the department ...”

- ♦ No waiver for A-133 audits that are required under federal law or for audits of gh's and rcc's needed to support claims for federal funds
- ♦ Purchaser performs risk assessment to decide whether requiring an audit make sense
- ♦ Waiver is possible for low risk situation
- ♦ Dept needs to approve waivers involving dept funds



"... biennially or annually ..."

- ♦ Federal A-133 requires annual audit
- ♦ Two years is too long if there's a problem
- ♦ But, two years is an option if audit is warranted, annual audit is not otherwise required, and this is not a high risk situation



"... care and services purchased exceed \$25,000."

- ♦ No distinction between federal or state funding
- ♦ No distinction between funding that agency gets directly from dept or passed through another agency, such as a county
- ♦ No distinction between vendor and subrecipient
- ♦ Mandate relief waiver possible for the \$25K threshold



An aside ...Mandate Relief Waivers for waiver of \$25K threshold

- ♦ Ch 66 has provision for mandate relief waivers
- ♦ 32 counties have waivers changing audit threshold in 46.036 from \$25K to \$75K or \$100K
- ♦ Does not apply to audits of Group Homes and Residential Care Centers for kids
- ♦ for more info, go to <http://www.revenue.wi.gov/forms/govcty/instruct.html> or call (608) 267-2836



... standards that the department prescribes

Standards are in two documents:

- ♦ *State Single Audit Guidelines* apply to DHFS funding at counties, tribes, 51 boards, schools, VTAE's, and other local governments that need A-133 audits
- ♦ *Provider Agency Audit Guide* applies to DHFS funding at nonprofits, for profits, and those local governments that do not need A-133 audits



Audits, generally

- ♦ Similarities between county and provider audits



The same standards apply

- ♦ Auditing Standards generally accepted in the United States
- ♦ Government Auditing Standards, aka "yellow book"
- ♦ Single Audit Act Amendments of 1996 and OMB Circular A-133, if applicable by federal policy or by contract
- ♦ State audit standards (SSAG or PAAG)



Reporting elements are similar

- ♦ Financial statements and opinion
- ♦ Report on internal controls and compliance at the financial statement level
- ♦ Report on internal control and compliance at program level, if A-133 applies



Reporting elements are similar

- ♦ Schedule of Expenditure of Federal and State Awards
 - Name of program
 - Identifying number
 - Expenditures
- ♦ Schedule of Prior Year Findings



Reporting elements are similar

- ♦ Schedule of Findings and Questioned Costs - report findings when
 - Potential for adverse effect on quality of care
 - Problem affects program integrity
 - Likely total questioned costs exceed \$1,000 for SSAG and \$500 for PAAG (as opposed to \$10,000 for A-133)
 - Situation involved fraud
 - Pattern of noncompliance indicated overall weakness in internal controls over compliance



Reporting elements are similar

- ♦ Management Letter
 - No requirement to issue a management letter
 - If auditor issues a management letter, agency is required to include it with the audit report
 - If auditor does not issue a management letter, agency must send written assurance there was no management letter



Reporting elements are similar

- ♦ Corrective Action Plan - auditee must provide corrective action plan for all audit findings:
 - Who is responsible for corrective action
 - What will be done to correct problem
 - When correction will be made



Provider audits, specifically

- ♦ Things specific to provider audits; i.e. audits required by Wis Stat 46.036



Purchaser has options for type of audit to require

- ♦ Purchaser decides minimum type of audit to meet the Purchaser's needs
- ♦ Risk
 - Program Risk – New? Complex? “Sensitive”? Who determines eligibility? Who determines level/number of services? Payment method? Competition?



Purchaser has options for type of audit to require

- Provider Risk – Total funding from dept? Length of time in business? Experience and past performance? Financial health and practices? Compliance and internal controls? Fiduciary responsibilities? Subcontracting?
- Granting/Purchasing Agency Risk – Experience with the provider? Experience with the program? Other monitoring methods?



Purchaser has options for type of audit to require

- ♦ Other considerations
 - Prohibition on charging some audit costs to federal grants
 - Cost/benefit - \$25K trigger for audit in 1989 would be equivalent to about \$48K today*
 - Need for audited information - ex. GH & RCC's
 - Whether A-133 is applicable

* <http://www.minneapolisfed.org/research/data/us/calc/>



Whether A-133 is applicable - Subrecipient vs. Vendor

- ♦ A-133 applies to subrecipients, not vendors
 - A *subrecipient receiving a grant* spends federal awards to carry out a federal program. When you subgrant federal grant funds, the funds retain identity as grant funds for the provider, and A-133 might apply.
 - A *vendor from whom you purchase services* provides goods or services used for a federal program. When you make purchases using federal grant funds, the funds are not grant funds for the provider, and A-133 does not apply.



Whether A-133 is applicable - Subrecipient vs. Vendor

- ♦ PAAG identifies GH, RCC, CBRF, & AFH as vendors
- ♦ For other agencies, purchaser/grantor uses judgment in applying criteria to other classes of contractors (1st three factors are based on guidance in A-133, with detail in a later slide)
 - Very likely to be a subrecipient if the contractor determines client eligibility and level/nature of services to be provided to the client
 - More likely to be a vendor if the contractor provides same services to multiple purchasers
 - More likely to be a vendor if price of the service is based on competitive bid
 - For DHFS, a subrecipient if entering into contract using “Granting Authority” and a vendor if using “Purchasing Authority”



Whether A-133 is applicable - Subrecipient vs. Vendor

- ♦ If subrecipient, i.e. a grant,
 - A-133 applies if:
 - Agency is government or nonprofit
 - Agency spent \$500,000 or more in federal awards, i.e. federal grants
 - Audit requirements under Wis Stat 46.036 apply if agency receives more than \$25,000 in dept funds from all sources
 - Audit must be agency-wide or program audit



Whether A-133 is applicable - Subrecipient vs. Vendor

- ♦ If vendor, i.e. a purchase
 - A-133 does not apply
 - Audit requirements under Wis Stat 46.036 apply if agency receives more than \$25,000 in dept funds from all sources, unless you decide to waive audit and DHFS agrees to the waiver
 - If you decide audit is needed, you choose from agency-wide, program, or agreed-upon procedures



Agency-wide audit

- ♦ Default audit - i.e. audit must be agency-wide audit if contract does not specify type of audit
- ♦ Provider hires auditor
- ♦ Consideration of fraud
- ♦ Perform audit of financial statements of overall agency
- ♦ Determine whether PAAG's supplemental schedules are fairly presented



Agency-wide audit

- ♦ Test compliance and internal controls at program level
 - Minimum 25% of expenditures for department programs
 - Select using risk, but
 - All programs must be covered at least once in any 4-year period
- ♦ Follow up on prior-year findings



Program audit

- ♦ Provider hires auditor
- ♦ Consideration of fraud
- ♦ Determine whether PAAG's supplemental schedules are fairly presented
- ♦ Test compliance and internal controls over all department programs
- ♦ Follow up on prior-year findings



Agreed-upon procedures

- ♦ Granting agency hires auditor and pays for audit
- ♦ Consideration of fraud
- ♦ Assess whether PAAG's supplemental schedules are complete and accurate, if included in engagement
- ♦ Test compliance and internal controls over programs covered by engagement
- ♦ Follow up on prior year findings



Test internal controls and compliance at program level

- ♦ Applicable to all three kinds of audits
- ♦ Five compliance requirements: activities allowed and unallowed, allowable costs, eligibility, matching, and reporting
- ♦ Each includes compliance and IC's
- ♦ Must consult contract, program manuals, etc. to identify specific items to test
- ♦ Based on A-133 compliance supplement with modification for department funding environment



Statement of Functional Revenue and Expenses

- ♦ Applicable only to agency-wide audits
- ♦ GAAP requires Statement of Functional Expenses for some nonprofit agencies
- ♦ PAAG requires Statement of Functional Revenue and Expenses (or equivalent) for all agencies audited under PAAG



GH/CCI schedule

- ♦ Applicable to providers which operate Group Home or Residential Care Centers (formerly called Child Caring Institutions)
- ♦ Schedule shows days of care and expenditures for federal Foster Care IV-E and Title XIX programs
- ♦ DHFS makes claims to federal government based on this schedule (the reason we don't waive these audits)



Reserves supplemental schedule

- ♦ Applicable to agencies that maintain reserves allowed under Wis Stat 46.036, which allows nonprofits that are paid using a prospectively set rate to retain a reserve funded by dept programs
- ♦ Schedule shows result of two-part test limiting reserve
 - Reserve for any one year is limited to 5% of revenue received under the contract
 - Accumulated reserves are limited to 10% of revenue received under contract



Performing Provider Audits



Performing Provider Audits

- ♦ Auditor Qualifications
- ♦ Changes in Auditing Standards
 - Yellow Book (GAO)
 - AICPA Auditing Standards
- ♦ Understanding Audit Elements
- ♦ Reviewing Provider Audits



Auditor Qualifications

- ♦ Must be licensed by State of Wisconsin
 - http://dri.wi.gov/dri/drilookup/LicenseLookupServlet?page=lookup_business
- ♦ Compliance with Government Auditing Standards
- ♦ Why is this important to me?



Government Auditing Standards

- ♦ Also known as “Yellow Book”
 - 2007 revision effective January 1, 2008
- ♦ Summary of Changes
- ♦ Peer review requirements
- ♦ Available at
 - www.gao.gov/govaud/govaudhtml/index.htm



Summary of GAGAS Changes (2007 Edition)

- ♦ Ethics and independence
- ♦ Professional judgment and competence
- ♦ Quality Control and Assurance
- ♦ GAGAS Reporting



External Peer Review

- ♦ Performed once every three years
- ♦ Peer review opinion
- ♦ Letter of comments
- ♦ External peer review
 - <http://peerreview.aicpaservices.org/firmfile/default>



Statement on Auditing Standards (SAS) No. 112

Communicating Internal Control Related Matters Identified in an Audit

- Control Deficiency, significant deficiency and material weakness
- Auditor cannot be considered part of internal control structure
- Auditor responsibilities
 - Evaluate control deficiencies, when identified
 - Communicate certain deficiencies to management and those in governance
 - Effective for 2007 audits



Risk Assessment Standards (SAS No. 104-111)

Issued March, 2006

Relate to the Assessment of risk in an audit of financial statements



Risk Assessment Standards (SAS No. 104-111)

- ♦ SAS No. 104, Amendment to SAS No. 1, Codification of Auditing Standards and Procedures
- ♦ SAS No. 105, Amendment to SAS 95
- ♦ SAS No. 106, Audit Evidence
- ♦ SAS No. 107, Audit Risk and Materiality in conducting and audit



Risk Assessment Standards (SAS No. 104-111)

- ♦ SAS No. 108, Planning and Supervision
- ♦ SAS No. 109, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
- ♦ SAS No. 110, Performing Audit Procedures in Responses to Assessed Risks and Evaluating Audit Evidence Obtained
- ♦ SAS No. 111, Amendment to SAS No. 39, Audit Sampling



Risk Assessment Standards (SAS No. 104-111)

- ♦ Provide guidance on
 - Auditors assessments of the risk of material misstatement (whether caused by error or fraud)
 - Design of audit procedures responsive to assessed risks
 - Planning and Supervision
 - Nature of Audit Evidence
 - Evaluation of Audit Evidence Obtained



Risk Assessment Standards (SAS No. 104-111)

- ♦ Objective
 - Require more comprehensive understanding of the entity, including more internal controls, to identify applicable risks
 - Improve the Assessment of the risk of material misstatement
 - Develop audit procedures based on the auditor's understanding of the client and the risks of material misstatement



Audit Fieldwork

Audit involves the following elements

- ♦ Financial statements
- ♦ Supplemental schedules
- ♦ Program-level testing
 - Obtain purchase of service contracts
 - Test compliance and internal controls
 - Allowable costs



Audit Fieldwork (Continued)

Common Issues in Provider Audits

- ♦ Lack of segregation of duties
- ♦ Reasonableness of compensation
- ♦ Allowability of costs
- ♦ Cost allocation
- ♦ Adequate documentation



Granting Agency Responsibilities

- ♦ Timely completion of audit confirmation
 - Payments made during current year
 - Funding sources
 - Any other information
- ♦ Agreement on subrecipient/vendor determination



Subrecipient vs. Vendor

Subrecipient

- Determines eligibility
- Must meet program objectives.
- Directs programs.
- Adheres to State and federal compliance requirements.
- Fully administers programs.

Vendor

- Provides goods and services to all buyers.
- Provides goods and services as a business.
- Operates competitively.
- Acts as a services to the state or federal program.
- Not responsible for state and federal compliance requirements.



Wisconsin Statutes

- ♦ No distinction between subrecipient and vendor
- ♦ Vendor relationship
 - Contracts with group homes and child care institutions
 - Adult family homes and community-based residential facilities



Reviewing Audit Reports



Audit Limitations

- ♦ After-the-fact determination
- ♦ Testing performed on sample of transactions
- ♦ Understanding of audit results



Financial Statements

- ♦ Balance Sheet/Statement of financial position
 - Financial position
 - Fixed assets (own or rent)
 - Unusual or unexpected assets and liabilities
- ♦ Income Statement/Statement of Activities
 - Large profit or loss
- ♦ Cash Flows
 - Is cash from operating activities sufficient



Financial Statements (Continued)

- ♦ Notes to the Financial Statements
 - Fixed asset policies, in agreement with Allowable Cost Policy Manual
 - Depreciation methods
 - Cost allocation policy
 - Related party transactions, rental agreements disclosed
 - Type of entity (for-profit vs. nonprofit entity)



Allowable Costs

- ♦ Approved budget with agency
- ♦ Compensation
 - <http://www.guidestar.org/pqCriteriaEntry.do?type=new&partner=guidestar>
- ♦ Depreciation
- ♦ Interest
- ♦ Related party transactions (rent, loans, etc.)



Related Party Transactions

Related party transactions occur when one party to a transaction can influence the management or financial operation policies of the other party. Can result in personal gain.



Opinions

- ♦ Independent Auditor's Report
- ♦ Auditor's Report on Internal Controls and Compliance
- ♦ Auditor's report on Compliance with Major Programs (A-133 audits)



Schedule of Findings and Questioned Costs and Corrective Action Plan

- ♦ Summary of auditor findings
 - Financial statements
 - Federal awards
 - Other issues
- ♦ Status of prior year findings and questioned costs
- ♦ Requires signature of partner
- ♦ Corrective action plan



Supplemental Schedules

Additional information can be required by provider-county contract

Nonprofit Agencies

- ♦ Schedule of Revenue and Expenses by Function
- ♦ Schedule of Revenue and Allowable Costs Allocated by Funding Source and by Contract
- ♦ Reserve Supplemental Schedule
- ♦ Incorporated Group Home/Child Caring Institutions Supplemental Schedule



Supplemental Schedules (Continued)

For-Profit Agencies

- ♦ Schedule of Revenue and Allowable Costs by Contract
- ♦ Allowable Profit for For-Profit Agencies which Provide Client Care
- ♦ Incorporated Group Home/Child Caring Institutions Supplemental Schedule



COUNTY REVIEW AND FOLLOW UP



Contract Summary Worksheet (SCHEDULE 1)

- Provider Name
- Contract No.
- Amount of Contract
- Type of Service (SPC Code)



Contract Summary Worksheet cont'd (SCHEDULE 1)

- ♦ Type of Entity
 - Government/Hospital
 - For-profit
 - Not-for-profit
- ♦ Amount Paid
- ♦ Audit Required
- ♦ Audit Received
- ♦ Rate-Based Service



Provider Audit Checklist (SCHEDULE 2)

- ♦ Provider Name / Contract No.
- ♦ Type of Entity
- ♦ Reports/Opinions
- ♦ Payments
- ♦ Financial Statements
 - Balance Sheet/Statement of Net Assets
 - Income Statements/Statement of Activities/Footnotes



Provider Audit Checklist cont'd (SCHEDULE 2)

- Balance Sheet/Statement of Net Asset Items
 - Cash/Restricted Cash
 - Capital Assets/Acc. Depreciation
 - Payables/Liabilities
 - Deferred Revenues
 - Long-term Debt
 - Net Assets - Restricted



Provider Audit Checklist cont'd (SCHEDULE 2)

- Income Statement/Statement of Activities Items
 - ♦ Depreciation Expense
 - ♦ Rents/Leases
 - ♦ Interest
- Footnotes
 - ♦ Detail of Balance Sheet Accounts
 - ♦ Related Party Transactions



Provider Audit Checklist cont'd (SCHEDULE 2)

- ♦ Schedule of Findings and Questioned Costs
- ♦ Management Letter (if provided)
- ♦ Supplemental Schedules
- ♦ Calculations of
 - Allowable Profit or
 - Reserves
- ♦ Allowable Cost Issues
- ♦ Conclusion



Summary of Provider Audit Review Worksheet (SCHEDULE 3)

- ♦ Provider
- ♦ Refund Due
- ♦ Refund Paid
- ♦ Reserves Held
- ♦ Status/Open Items
- ♦ Final Status



Reserves Worksheet (SCHEDULE 4)

- ♦ Provider
- ♦ Program
- ♦ Total Program Reserve
- ♦ Total Provider Reserve
- ♦ Starting adding Negative Reserves to Schedule in 2005 as a separate section



County Findings

Note – Outagamie County currently requires all entity-wide audits

- ♦ Opinion missing PAAG reference
- ♦ No opinion on Internal Controls and Compliance
- ♦ Reconciling Payments/Revenues
 - Not able to determine from audit report
 - Revs on audit includes client cost shares
- ♦ No Supplemental Schedules



County Findings cont'd

- ♦ Schedule of Reserves Incorrect/Incomplete
 - Review revenue listed (County/Client portions)
 - Review allowable expenses listed vs. total expenses
 - Recalculate schedule
 - Review allocation of excess revenue
- ♦ Schedule of Allowable Profit Incorrect
 - Recalculate and Review Allowable Costs
 - Recalculate Net Equity (Based on Units of Service)



County Findings cont'd

- ♦ Unallowed Costs not Deducted Out
 - Rents to related parties
 - Personal expenses
 - Interest on non capital loans
 - Goodwill/start-up costs amortization
 - Fund raising



County Findings cont'd

- ♦ No Payments of Refunds Unless Specifically Requested
 - Payment Plans
- ♦ No Responses to Requests
- ♦ No Audits Received
- ♦ Human Services Department unaware of some reserves being held or how much on some of the providers



County Options on Audit Reviews

- ♦ Do nothing – inconsequential
- ♦ Require additional information
- ♦ Impose special provisions in the next contract
- ♦ Withhold payments/offset to current payments
- ♦ Discontinue contracting with provider
- ♦ Work with auditor/provider to correct the issue
- ♦ Let it go this year and require it in next years
- ♦ Contact the State DHFS or DWD
- ♦ If major irregularity, contact WDRL or WICPA



Key Elements

- ♦ Allowable/Unallowable Costs
- ♦ Reserve Calculation – Not-for-Profit
- ♦ Allowable Profit Calculation – For-Profit
- ♦ Refunds Due



Auditor Responsibilities

General Requirements (State Single Audit Guidelines)

- ♦ Review procurement policies
 - Conflict of interest
 - Signed contracts
 - Adequate documentation of contract monitoring
- ♦ Provider Licenses/Certification



Auditor Responsibilities (Continued)

General Requirements (continued)

- ♦ Audit Report Monitoring
 - received the provider audit reports or has a waiver on file
 - reviewed the provider audit reports to ensure they contain all applicable report elements required by the contract and by the type of audit that was performed.
 - resolved audit findings within six months of receipt of the audit.
- ♦ Findings and Questioned Costs – Single Audit Report



Auditor Responsibilities (Continued)

Results of Provider Reviews Performed at Counties

- ♦ Inadequate resources devoted to reviewing/resolving provider audit reports
 - Provider payments significant portion of County Human Services budget
 - Documentation of the receipt of an audit not adequate monitoring
 - Providers not likely to refund overpayments without request from County
 - Auditors cannot be considered part of your internal controls over resolution of provider audit reports (SAS 112)
- ♦ Lack of timely review/resolution with provider



Reviewing county audit reports



Receive audit report

- ♦ Date stamp
- ♦ Enter date received on database
- ♦ Updates contact person, address info
- ♦ Alert lead auditor if there are significant issues in the Schedule of Findings and Questioned Costs



Assign audit report

- ♦ Immediately assign audit report to audit staff if screening or other info indicates significant problems
- ♦ Otherwise assigns on first in first out basis



Review audit report

- Desk review to answer three essential questions:
 - Does report reference applicable standards?
 - Does the report show issues affecting government programs?
 - If yes, does agency have adequate corrective action plan?



Frequent findings ...

Findings in County audits are usually for a program or other requirement from DHFS:

Department	2004	2005
DHFS	100	117
DATCP	2	3
Commerce	1	3
DNR	1	4
DOA	2	1
DOC	--	1
DOJ	--	1
DOR	--	2
DOT	2	19
DWD	9	8



Frequent findings ...

Several DHFS program or requirements account for majority of findings in County audits:

DHFS Appendix Section	2004	2005
2.1 Reporting costs	11	10
2.4 Purchase of care	32	25
2.8 Client rights/funds	10	10
3.1/3.5 COP, CIP/COPW	18	16
3.2 CIP I	8	33
Segregation of duties (New Section 2.5 in 2006 revision)	18	



... and what we do with them

- Notify other departments of findings related to their programs
- Send findings related to specific programs from our department to respective program staff
- Send findings related to Purchase of Services, segregation of duties, and certain other cross-cutting affecting the State/County Contract to Area Administrator
- Resolve findings related to general agency operations



... and what we do with them

- Options for addressing findings:
 - Do nothing, i.e. issue is inconsequential
 - Require agency to repay finds
 - Accept agency's corrective action plan
 - Require a more detailed corrective action plan
 - Withhold money to encourage corrective action
 - Increase monitoring, including going onsite
 - Require additional reporting
 - Provide technical assistance
 - Look at our own business functions, contract language, program instructions, etc.



Summary of Refunds (Schedule 5)

- ♦ Summary of refunds



POS Contract Additions (Schedule 6)

- ♦ Not For Profit Providers
 - Schedule of Reserves
 - Use of Prior Year Reserves
 - Amounts due Purchaser
 - Interest
 - Closed Programs
 - Cease business with the provider



POS Contract Additions (Schedule 6)

- ♦ For Profit
 - Calculation of Allowable Profit
 - Amounts due Purchaser
 - For Profit Calculation if Related Party Rent is involved (Schedules 7A & 7B)



RECORDING PROVIDER RESERVES



Recording Provider Reserves (SCHEDULE 8)

- ♦ Various Options – Work with your Auditor On
- ♦ Outagamie County Recorded as
 - Accounts Receivable and Deferred Revenue
 - It is material to the Financial Statements
 - Measurable but not available (not modified accrual)
 - Largest provider has “reserve” as a liability/payable
 - Provider went out of business, reserve would be returned to us



Recording Provider Reserves (SCHEDULE 8)

- ♦ 4th GAAP hierarchy – Industry practice – If county funding, State allows us to record as a revenue/refund and not offset to current year expenditures.
- ♦ If recorded on the Balance Sheet, it requires annual monitoring and updating
- ♦ ➤ GASB #34 – Recognize Deferred Revenue



Recording Provider Reserves (SCHEDULE 8)

- ♦ Other Options
 - Don't record – Footnote ?
 - Prepaid Expense
 - Combination of a Prepaid Expense and Deferred Revenue



Questions ?

- ♦ Questions ?